



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
WEST KENTUCKY EDUCATIONAL COOPERATIVE**

Fiscal Year Ended June 30, 2000

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AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary, Finance and Administration Cabinet

Gene Wilhoit, Commissioner, Department of Education

Robert S. Sherman, Director, Legislative Research Commission

Jayne C. Crisp, Executive Director, West Kentucky Educational Cooperative

Board of Directors of the West Kentucky Educational Cooperative

The enclosed report prepared by Howe & Melton, LLP, Certified Public Accountants, presents the financial statements of the West Kentucky Educational Cooperative, Murray, Kentucky, as of June 30, 2000.

We engaged Howe & Melton, LLP, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Howe & Melton, LLP, evaluated the West Kentucky Educational Cooperative's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

EXECUTIVE SUMMARY

West Kentucky Educational Cooperative Fiscal Year Ended June 30, 2000

An audit of the West Kentucky Educational Cooperative for fiscal year ended June 30, 2000, has been completed. The auditors' report expresses a qualified opinion on the financial statements of the Cooperative due to the omission of the General Fixed Asset Account Group and certain employee benefit payments made by the Kentucky Department of Education.

Four findings were disclosed by the audit of the Cooperative's financial statements. These findings are considered to be instances of noncompliance and reportable conditions relating to internal control. The first of these four conditions is considered to be a material weakness and relates to major federal programs. The findings are as follows:

- The West Kentucky Educational Cooperative does not require supporting documentation for various expenditures. During our detail audit testing, we noted several credit card expenditures and reimbursements to employees for which no supporting documentation could be located. This reportable condition is considered to be a material weakness.
- Charges for personal items by employees on the West Kentucky Educational Cooperative's credit card are not prohibited. We noted several instances of personal items being charged by employees during our testing. Although subsequent employee reimbursement is required, the charging of personal items on the Cooperative's credit card is not consistent with proper accounting practices. This reportable condition is not considered to be a material weakness.
- West Kentucky Educational Cooperative's underlying detail records supporting all transactions are not maintained in an orderly fashion. During our audit fieldwork, we noted that the monthly "Departmental Report of Transactions" received from the Murray State University Foundation for each of the 98 active accounts were not filed in an orderly manner and, in some instances, incomplete. This reportable condition is not considered to be a material weakness.
- Migrant Education Program funds were expended for unallowed purposes. During our detail audit testing, we noted expenditures for classroom supplies and equipment that did not appear to be entirely for the benefit of eligible students.

Funds are held, as a matter of convenience, by the Murray State University Foundation at Murray State University. It is unclear whether or not funds are insured or collateralized. However, at June 30, 2000, the West Kentucky Educational Cooperative had a deficit cash position.

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee for School District Audits
Members of the West Kentucky Educational Cooperative
Murray, Kentucky

We have audited the accompanying general purpose financial statements of the West Kentucky Educational Cooperative as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the West Kentucky Educational Cooperative management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group which should be included to conform with generally accepted accounting principles. The amounts that should be recorded as assets are not readily available. Additionally, the general purpose financial statements do not include all payments made by the Kentucky Department of Education on behalf of the West Kentucky Educational Cooperative, such as employee health and life insurance premiums, retirement matching, vocational education costs, and other similar payments.

In our opinion, except for the effects of the omissions discussed in the preceding paragraph and such adjustments, if any, as might have been determined to be necessary had we been able to identify amounts that should be recorded as general fixed assets, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the West Kentucky Educational Cooperative as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2000, on our consideration of West Kentucky Educational Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, and is not a required part of the general purpose financial statements of West Kentucky Educational Cooperative. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of management and the Kentucky Department of Education. However, this report is a matter of public record and its distribution is not limited.

November 20, 2000

COMBINED FINANCIAL STATEMENTS

WEST KENTUCKY EDUCATIONAL COOPERATIVE

COMBINED BALANCE SHEET

ALL FUND TYPES

JUNE 30, 2000

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE (GRANT) FUND</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
ASSETS AND RESOURCES			
Cash and cash equivalents - Notes 1 and 3			
Unreserved	\$198,897	\$ -	\$198,897
Reserved	45,697	239,629	285,326
Accounts Receivable	<u> </u>	<u>439,162</u>	<u>439,162</u>
TOTAL ASSETS AND RESOURCES	<u>\$244,594</u>	<u>\$678,791</u>	<u>\$923,385</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts payable	\$ 493	\$ 85,079	\$ 85,572
Account overdrafts - Note 3	<u>127,899</u>	<u>388,116</u>	<u>516,015</u>
Total Liabilities	<u>128,392</u>	<u>473,195</u>	<u>601,587</u>
Fund Equity			
Fund Balance			
Unreserved	183,588	-	183,588
Reserved - Note 4	<u>(67,386)</u>	<u>205,596</u>	<u>138,210</u>
Total Fund Equity	<u>116,202</u>	<u>205,596</u>	<u>321,798</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$244,594</u>	<u>\$678,791</u>	<u>\$923,385</u>

See Accompanying Notes

**WEST KENTUCKY EDUCATIONAL COOPERATIVE
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2000**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE (GRANT) FUNDS</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
REVENUES			
Revenue from local sources	\$1,166,952	\$ -	\$1,166,952
Revenues from state sources		181,936	181,936
Federal aid through the state		<u>3,081,576</u>	<u>3,081,576</u>
Total Revenues	<u>1,166,952</u>	<u>3,263,512</u>	<u>4,430,464</u>
EXPENDITURES			
Program costs	1,079,635		1,079,635
Administration		471,547	471,547
Instruction		2,655,856	2,655,856
Capital outlay		11,455	11,455
Staff development		<u>188,371</u>	<u>188,371</u>
Total Expenditures	<u>1,079,635</u>	<u>3,327,229</u>	<u>4,406,864</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures - Note 11	87,317	(63,717)	23,600
Fund Balance, June 30, 1999	<u>28,885</u>	<u>269,313</u>	<u>298,198</u>
Fund Balance, June 30, 2000	<u>\$ 116,202</u>	<u>\$ 205,596</u>	<u>\$ 321,798</u>

See Accompanying Notes

WEST KENTUCKY EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the West Kentucky Educational Cooperative substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Reporting Entity - The West Kentucky Educational Cooperative (Cooperative) was organized by approximately twenty school districts in western Kentucky. Its purpose is to identify common needs, plan conferences, develop district programs, implement workshops, facilitate large group purchasing for member districts, operate a Diagnostic Center for handicapped students, operate the Regional Computer Service, and other services as requested. The member school districts are required to pay annual contract fees for membership, in addition to other amounts on a cost sharing basis. The Cooperative also receives funding from federal and state government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are comprised of the superintendents from each member district and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters. The Board hires a director to oversee the operations of the Cooperative.

Fund Accounting - The Cooperative maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

- a. The General Fund is the primary operating fund of the Cooperative. It accounts for financial resources used for general types of operations. Any unreserved fund balances are considered as resources available for use.
- b. The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. They include federal and state financial programs where unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

**WEST KENTUCKY EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

JUNE 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II. Account Group

- a. **General Fixed Assets Account Group** - The general fixed assets are recorded as expenditures of the fund from which the disbursement is made. The Cooperative does not maintain a record of the cost of its property and equipment, therefore, no group of accounts is maintained.

Basis of Accounting - The records of the Cooperative are maintained on the modified accrual basis method of accounting. This practice is the accounting method prescribed by the Committee for School District Audits.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

Adjustments have been made to the general purpose financial statements for accounts receivable and payable to more properly reflect the fund balances of the various funds, in accordance with the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Budgetary Process - The Cooperative does not formally adopt comprehensive budgets for the General and Special Revenue Funds. Some specific line items within the funds have budgets for management's use. As a result, Budget/Actual amounts are not presented in these financial statements.

Cash and Cash Equivalents - The Cooperative considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories - Supplies and materials are charged to expenditures when purchased.

Total Columns - Total columns on the financial statements are indicated "Memorandum Only," as data in these columns do not present financial positions, results of operations or changes in fund balances in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2000

NOTE 3 - CASH AND CASH EQUIVALENTS

Deposits are carried at cost. The carrying amount of deposits is separately displayed on the Combined Balance Sheet, as cash and cash equivalents - unreserved \$198,897, reserved \$285,326, and account overdrafts \$516,015.

**Carrying Amount and
Depository's Balance**

Total Cash and Cash Equivalents	\$ <u>(31,792)</u>
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NOTE 4 - RESERVED FUND BALANCE - GENERAL FUND

The amount recorded as a reservation of the General Fund Balance at the balance sheet date is, as follows:

Amounts held for (due from) other school districts	\$ <u>(67,386)</u>
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NOTE 5 - RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). Funding for the plan is provided through payroll withholdings of 9.855% and matching State contributions. The matching contributions are paid by the Federal program for any salaries paid by that program.

The Cooperative's total payroll for the year was \$1,597,968. The payroll for employees covered under KTRS was \$1,143,959. The Cooperative has a contribution requirement to KTRS of \$28,599 for certified personnel of federal programs. Benefits under the KTRS plan will vary based on final compensation, years of service and other factors as fully described in the plan document.

As the board is only one of several employers participating in the plan, it is not practical to determine the board's portion of the unfunded past service cost or the vested benefits of the board's portion of the plan assets.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2000

NOTE 6 - CONTINGENCIES

The Cooperative receives funding from Federal agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Cooperative for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Cooperative's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 7 - INSURANCE AND RELATED ACTIVITIES

The Cooperative is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The Cooperative has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE 8 - LITIGATION

Management has stated there is no pending or threatened litigation as of June 30, 2000.

NOTE 9 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the Cooperative participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The Cooperative pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2000

NOTE 9 - RISK MANAGEMENT (CONTINUED)

The Cooperative purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the Cooperative continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 - COBRA

The Cooperative has notified all terminated employees of available continuing insurance coverage as mandated under COBRA.

NOTE 11 - DEFICIT OPERATING/FUND BALANCES

There are no funds of the Cooperative that currently have a deficit fund balance. However, the following fund has operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance.

Special Revenue Fund	<u>\$(63,717)</u>
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SUPPLEMENTARY INFORMATION

**WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2000**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
Regular Traineeship Program	84.027A*	7123	\$ 130,000
Regular Traineeship Program	84.027A*	7123	130,000
Regular Traineeship Program	84.027A*	7123	130,000
I.D.E.A., Part B	84.027A*	IDEA-B-WKEC-DG-98	354,151
I.D.E.A., Part B	84.027A*	IDEA-B-WKEC-DG-99	522,755
I.D.E.A., Part B, Preschool	84.173A*	5357	80,000
I.D.E.A., Part B, Preschool	84.173A*	5357	50,000
Consolidated Planning Review Project, Ch. I	84.012	94-95	5,638
Traineeship Project	84.181A	MH98-99-5201	20,000
Traineeship Project	84.181A	MH99-00-5201	20,000
Goals 2000	84.276A	97-98	150,000
Goals 2000-Connections West	84.276A	97-98	150,000
Goals 2000	84.276A	98-99	140,000
Goals 2000-Connections West	84.276A	98-99	140,000
Goals 2000-Targeting Standards	84.276A	99-00	249,725
Kentucky Transition Project	84.158A	94-95	21,690
Migrant Education Program	84.011A*	V00980355-00M	1,228,004
Migrant Education Program	84.011A*	V00980355-99M	918,252
Vocational Education Carryforward	84.048A	5462-95	7,595
Vocational Education	84.048A	5462-95	100,005
Vocational Education	84.048A	5462-96	99,408
Vocational Education	84.048A	5462-98	108,420
Vocational Education	84.048A	5462-99	112,434
Vocational Education	84.048A	5462-00	82,093
Passed Through Fulton County School District:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334B	99-00	370,344
Passed Through State Cabinet for Workforce Development/Department for Adult Education and Literacy:			
Adult Basic Education - Administrative	84.002A*	DAEL-94-95-BG201	11,322
Adult Basic Education - Administrative	84.002A*	DAEL-95-96-BG201	40,315
Adult Basic Education - Training Incentives	84.002A*	DAEL-95-96-BG201	6,384
Adult Basic Education - Vulcan Materials	84.002A*	DAEL-93-94-BG201	20,497
Adult Basic Education	84.002A*	DAEL-96-97-BG201	258,223
Adult Basic Education	84.002A*	DAEL-97-98-004	271,646
Adult Basic Education - Professional Development 1	84.002A*	DAEL-97-98-004	60,000
Adult Basic Education - Professional Development 2	84.002A*	DAEL-97-98-004	60,000
Adult Basic Education	84.002A*	DAEL-98-99-004	463,165
Adult Basic Education - Professional Development 1	84.002A*	DAEL-98-99-004	65,000
Adult Basic Education - Professional Development 2	84.002A*	DAEL-98-99-004	65,000
Adult Basic Education - Jobs for Adult Graduates	84.002A*	JAG-98-99-122	55,000
Adult Basic Education	84.002A*	DAEL-98-99-004	347,211
Adult Basic Education - Professional Development 1	84.002A*	DAEL-99-00-004	43,890

*Major program as defined by OMB Circular A-133

<u>Cash at</u> <u>July 1, 1999</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash at</u> <u>June 30, 2000</u>
\$ -	\$ 13,862	\$ 25,245	\$ (11,383)
19,647		19,647	-
57,116	36,086	44,429	48,773
(44,575)	75,992	31,386	31
-	414,813	400,694	14,119
(15,436)	13,465	16,578	(18,549)
-	5,173	9,421	(4,248)
2,043		2,043	-
(2,847)	4,309	5,305	(3,843)
-	1,655	3,014	(1,359)
(29,459)			(29,459)
19,278			19,278
(13,049)	15,000	1,426	525
(14,874)	34,000	19,126	-
-	40,000	63,015	(23,015)
1,523		1,523	-
-	930,500	838,475	92,025
(105,797)	413,252	307,455	-
-	28	28	-
1,075		1,075	-
5,909		5,909	-
804		804	-
(36,838)	74,142	31,623	5,681
-	40,664	43,481	(2,817)
-	235,910	254,308	(18,398)
(15)		2	(17)
(1,940)	1,940		-
(938)			(938)
(6,875)			(6,875)
(1,389)			(1,389)
(21,997)	23,556	1,559	-
12,700		12,700	-
16,184		16,184	-
39,261		39,261	-
(12,358)	36,640	21,590	2,692
(20,621)	42,900	18,465	3,814
(16,730)	17,228	498	-
-	208,594	327,214	(118,620)
-	51,513	40,633	10,880

**WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2000**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Education (Continued)</u>			
Adult Basic Education - Professional Development 2	84.002A*	DAEL-99-00-004	\$ 45,540
Adult Basic Education - Jobs for Adult Graduates	84.002A*	JAG-99-00-122	36,300
Adult Basic Education - Innovative	84.002A*	DAEL-99-00-004	<u>114,412</u>
Total U.S. Department of Education			<u>7,284,419</u>
<u>U.S. Department of Health and Human Services</u>			
Passed Through State Cabinet for Health Services:			
Developmental Disabilities	93.630A	DD98-99-0009	84,650
Developmental Disabilities	93.630A	DD99-00-0009	<u>62,455</u>
Total U.S. Department of Health and Human Services			<u>147,105</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$7,431,524</u>

<u>Cash at July 1, 1999</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash at June 30, 2000</u>
\$ -	\$ 64,304	\$ 46,124	\$ 18,180
-	41,957	56,431	(14,474)
-	67,913	94,779	(26,866)
<u>(170,198)</u>	<u>2,905,396</u>	<u>2,801,450</u>	<u>(66,252)</u>
6,859	2,879	5,960	3,778
<u>-</u>	<u>25,775</u>	<u>34,387</u>	<u>(8,612)</u>
<u>6,859</u>	<u>28,654</u>	<u>40,347</u>	<u>(4,834)</u>
<u>\$(163,339)</u>	<u>\$2,934,050</u>	<u>\$2,841,797</u>	<u>\$ (71,806)</u>

WEST KENTUCKY EDUCATIONAL COOPERATIVE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the cash activity of the Cooperative's federal award programs and does not present transactions that would be included in financial statements of the Cooperative presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Kentucky State Committee for School District Audits
Members of the West Kentucky Educational Cooperative
Murray, Kentucky

We have audited the general purpose financial statements of the West Kentucky Educational Cooperative as of and for the year ended June 30, 2000, and have issued our report thereon dated November 20 , 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether West Kentucky Educational Cooperative's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 00-1, 00-2 and 00-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Kentucky Educational Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect West Kentucky Educational Cooperative's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-1, 00-2 and 00-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 00-1 to be a material weakness.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 20, 2000

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
Members of the West Kentucky Educational Cooperative
Murray, Kentucky

Compliance

We have audited the compliance of West Kentucky Educational Cooperative with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The West Kentucky Educational Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of West Kentucky Educational Cooperative's management. Our responsibility is to express an opinion on West Kentucky Educational Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about West Kentucky Educational Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on West Kentucky Educational Cooperative's compliance with those requirements.

As described in item 00-1 in the accompanying schedule of findings and questioned costs, West Kentucky Educational Cooperative did not comply with requirements regarding allowable costs/cost principles that are applicable to its Special Education Cluster, Adult Basic Education and Migrant Education Program. Compliance with such requirements is necessary, in our opinion, for West Kentucky Educational Cooperative to comply with requirements applicable to these major programs.

As described in item 00-4 in the accompanying schedule of findings and questioned costs, West Kentucky Educational Cooperative did not comply with requirements regarding activities allowed or unallowed that are applicable to its Migrant Education Program. Compliance with such requirements is necessary, in our opinion, for West Kentucky Educational Cooperative to comply with requirements applicable to these major programs.

In our opinion, except for the noncompliances described in the preceding two paragraphs, West Kentucky Educational Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control Over Compliance

The management of West Kentucky Educational Cooperative is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered West Kentucky Educational Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect West Kentucky Educational Cooperative's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-1 and 00-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider reportable condition 00-1 described above to be a material weakness.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

November 20, 2000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2000

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of the Cooperative due to the omission of the General Fixed Asset Account Group and certain employee benefit payments made by the Kentucky Department of Education.
2. Reportable conditions relating to internal control were disclosed by the audit of the Cooperative's financial statements. Reportable condition 00-1 was considered to be a material weakness. Reportable conditions 00-2 and 00-3 were not considered to be material weaknesses.
3. Instances of noncompliance which are material to the financial statements were disclosed by the audit.
4. Reportable conditions relating to internal control over major federal programs were disclosed by the audit. Reportable condition 00-1 was considered to be a material weakness. Reportable condition 00-4 was not considered to be a material weakness.
5. The auditors' report on compliance for major federal award programs for the Cooperative expresses a qualified opinion.
6. The audit disclosed audit findings required to be reported under OMB Circular A-133, Subpart E, Section .510(a). These findings are described in Section III below.
7. The programs tested as major programs included: Migrant Education Program, C.F.D.A. Number 84.011A, Special Education Cluster, C.F.D.A. Numbers 84.027A and 84.173A, and Adult Basic Education, C.F.D.A. Number 84.002A.
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. The Cooperative was not determined to be a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

REPORTABLE CONDITIONS

00-1 **Condition** - Supporting documentation for various expenditures is not required. During our detail audit testing, we noted several credit card expenditures and reimbursements to employees for which no supporting documentation could be located. This reportable condition is considered to be a material weakness.

Criteria - Internal controls should be in place that provide supporting documentation for all expenditures. Internal controls should also be in place to ensure proper approval of the supporting documentation prior to payment of the expenditure.

Cause - No internal control procedures have been put into place that require all expenditures to be supported prior to payment.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2000

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

REPORTABLE CONDITIONS (CONTINUED)

Effect - Because of the failure to require supporting documentation for all expenditures, unapproved and/or improper amounts may be paid, and the expenditure may not be properly classified.

Prevalence of Finding - The lack of supporting documentation for selected expenditures appears to be systemic.

Recommendation - Procedures should be implemented requiring supporting documentation for all expenditures. Management should approve the supporting documentation prior to payment.

Response - Management agrees and has implemented the recommendation during the 2000–2001 year.

00-2 **Condition** - Charges for personal items by employees on the Cooperative's credit card are not prohibited. We noted several instances of personal items being charged by employees during our testing. Although subsequent employee reimbursement is required, the charging of personal items on the Cooperative's credit card is not consistent with proper accounting practices. This reportable condition is not considered to be a material weakness.

Criteria - Internal controls should be in place that prohibit personal items from being charged by employees on the Cooperative's credit card.

Cause - No internal control procedures have been implemented to prevent employees from charging personal items on the Cooperative's credit card.

Effect - There is an increased risk of unauthorized and/or improper expenditures being paid by allowing personal items to be charged on the Cooperative's credit card.

Prevalence of Finding - Personal items of employees being charged to the Cooperative's credit card appears to be systemic.

Recommendation - Internal control procedures should be established to prohibit employees from charging personal items on the Cooperative's credit card.

Response - Management agrees and has implemented the recommendation during the 2000-2001 year.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2000

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

REPORTABLE CONDITIONS (CONTINUED)

00-3 Condition - Underlying detail records supporting all transactions are not maintained in an orderly fashion. During our audit fieldwork, we noted that the monthly “Departmental Report of Transactions” received from the Murray State University Foundation for each of the 98 active accounts were not filed in an orderly manner and, in some instances, incomplete. This reportable condition is not considered to be a material weakness.

Criteria - Internal controls should be established to require underlying detail records to be filed in a systematic and organized manner and in accordance with proper accounting practices and procedures.

Cause - No internal control procedures have been established to require the systematic and organized filing of monthly reports for each account.

Effect - Because the underlying records for each account are not maintained in an orderly manner, there is an increased risk of not being able to verify transactions and account balances in a timely manner.

Prevalence of Finding - Disorderly filing of underlying detail records appears to be systemic.

Recommendation - Internal control procedures should be established to require systematic and timely filing of monthly “Departmental Report of Transactions” by account as they are received from the Murray State University Foundation.

Response - Management agrees and intends to implement the recommendation during the 2000-2001 year.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2000

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF EDUCATION

Special Education Cluster
 CFDA Number: 84.027A
 Pass-Through Grantor Number: IDEA-B-WKEC-DG-99

Adult Basic Education
 CFDA Number: 84.002A
 Pass-Through Grantor Numbers: DAEL-99-00-004 and
 JAG-99-00-122

Migrant Education Program
 CFDA Number: 84.011A
 Pass-Through Grantor Number: V00980355-00M

00-1 **Condition** - Supporting documentation for various expenditures is not required. During our detail audit testing, we noted several credit card expenditures and reimbursements to employees for which no supporting documentation could be located. This reportable condition is considered to be a material weakness.

Criteria - OMB Circular A-133 Compliance Supplement requirement B “Allowable Costs/Cost Principles” requires that all expenditures be supported by proper documentation. Internal controls should be in place that provide supporting documentation for all expenditures. Internal controls should also be in place to ensure proper approval of the supporting documentation prior to payment of the expenditure.

<u>Questioned Costs</u> -	Special Education Cluster	\$ 1,530.46
	Adult Basic Education	8,844.59
	Migrant Education Program	<u>578.99</u>
		<u>\$10,954.04</u>

Cause - No internal control procedures have been put into place that require all expenditures to be supported prior to payment.

Effect - Because of the failure to require supporting documentation for all expenditures, unallowed, unapproved and/or improper amounts may be paid, and the expenditure may not be properly classified.

Prevalence of Finding - The lack of supporting documentation for selected expenditures appears to be systemic.

Recommendation - Procedures should be implemented requiring supporting documentation for all expenditures. Management should approve the supporting documentation prior to payment.

Response - Management agrees and has implemented the recommendation during the 2000–2001 year.

WEST KENTUCKY EDUCATIONAL COOPERATIVE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2000

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF EDUCATION

Migrant Education Program
CFDA Number: 84.011A
Pass-Through Grantor Number: V00980355-00M

00-4 **Condition** – Migrant Education Program funds were expended for unallowed purposes. During our detail audit testing, we noted expenditures for classroom supplies and equipment that did not appear to be entirely for the benefit of eligible students.

Criteria - OMB Circular A-133 Compliance Supplement requirement A “Activities Allowed or Unallowed” requires funds to be used to identify migrant children and their needs and to provide educational and support services that address those needs identified. In addition, OMB Circular A-133 Compliance Supplement requirement B “Allowable Costs/Cost Principles” requires that costs be reasonable and necessary for the performance and administration of Federal awards.

Questioned Costs - \$ 456.48

Cause - No internal control procedures have been implemented to require all expenditures to be supported prior to payment, therefore, it was not possible to verify whether the costs were allowable or not.

Effect - Because of the failure to require supporting documentation for all expenditures, unallowed, unapproved and/or improper amounts may be paid, and the expenditure may not be properly classified.

Prevalence of Finding – This unallowed expenditure appears to be an isolated incident.

Recommendation - Procedures should be implemented requiring supporting documentation for all expenditures. Supporting documentation should be properly approved and deemed allowable prior to payment.

Response - Management agrees and will implement the recommendation during the 2000–2001 year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

WEST KENTUCKY EDUCATIONAL COOPERATIVE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2000

FINDING 99-1:

Reportable Condition - Due to the insufficient number of personnel required to attain an adequate separation of duties, employees having access to cash receipts also have access to the accounting records.

Recommendation - We recommended that duties be distributed among existing employees.

Current Status - This circumstance no longer exists.

FINDING 99-2:

Condition - A physical inventory of IDEA-B equipment has not been taken and reconciled to equipment records in over two years. The audit finding results in noncompliance with the equipment and real property management objectives related to Federal programs, whereby the grantee is required to maintain equipment records and reconcile a physical inventory to the equipment records every two years. This finding is not considered to be a material instance of noncompliance.

Recommendation - Recommendation was made that a physical inventory be taken and reconciled annually.

Current Status - This circumstance no longer exists.